

Petroleum Group Corporation Development Strategies and Aims

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Two enormous-sized petroleum and petrochemical enterprise group corporations have been formed as a result of the National Council's decision that the Ex-Petroleum and Natural Gas General Corporation and the Petrochemical General Corporation be reformed and re-organized according the principle of upstream combination or and downstream combination .The re-organization of the two group corporations not only gives expression to the entire imagination on the separation of enterprises from the state in the organizational structure reform but also takes the concrete features both petroleum industry and petrochemical industry into consideration, which is a scientific and realistic choice of strategies in agreement with the basic requirements the socialist market economy system .The two re-organized group corporations embody the integration between the upstream and the downstream, between the trade at home and the trade abroad, and between the production and the marketing ;meanwhile they keep superiority respectively, both combined with each other and competing with each other. Thus, new vitality and life are brought into China's petroleum and petrochemical industries .

1'The General Situation After the Reorganization of the Two Corporations. The newly-organized China's Petroleum and Natural Gas Group Corporation is composed of 13 petroleum and natural gas enterprises originally under the China Petroleum and Natural Gas General Corporation: Daqing ,Liaohe,Xinjiang ,Sichuan, Hubei, Dagang, Talima, Tuha, Changching, Qinghai, Yumen ,Jibei, Zhejiang; of 14 refinery enterprises originally under the China's Petrochemical General Corporation :Daqing Petrochemical General Factory, Harbin Refinery, Linyuan Refinery, Qianguo Refinery, Fushun Petrochemicals Company, Jinzhou Petrochemicals Company, Jinxi Petrochemicals General Factory, Liaoyang Petroleum & Chemical Fiber Company, Dalian Petrochemical Company, Dalian West Pacific Petrochemical Corporation Limited, Wulumuqi Petrochemical General Factory, Lanzhou Refinery Chemicals General Factory, Lanchou Chemicals Industry Company and Ningxia Chemicals Factory; of 5 marketing companies in Harbin , Shenyang, Jilin, Baoji and the Northnest; of 15 provincial and local petroleum companies (including Dalian, Shenyang and Xian Petroleum Companies) originally under the administration of Heilongjiang, Liaoning, Jilin, Inner Mongolia, Gansu, Ningxia, Xinjiang, Qinghai, Tibet, Sichuan and Chongqing; of Jilin Petroleum Group limited Liability Corporation and Jilin Chemicals Group Corporation originally under the administration of Jilin Province; of the whole enterprises and institutions including scientific research designing, pipe-transportation, building and construction, machinery production, and colleges and universities originally under the direct administration of Ex-China Petroleum & Natural Gas General Corporation. And recently the government decides that all the local small refineries, to which the National Development and Planning Commission arranges to supply petroleum, incorporate into the two Petroleum and Petrochemical Groups respectively, in which they are loosely combined and independent of each other in finance.

The newly-organized China Petroleum & Natural Gas Group Corporation mainly deals in oil and gas exploration and exploitation, refinery and chemicals, oil and gas products

marketing and so on, as well as in a variety of businesses concerning petroleum and petrochemical enterprises. It, by nature, is a state-owned enterprise exclusively invested in its formation by the state, a setup entitled by the state to invest, and a proprietary experiment unit for the state companies. It is, via the State Economy and Trade Commission, under the direct control and administration of the State Council. It acts, on behalf of the state, as a dealer, an administrator and an inspector of the state-owned property concerned of the enterprises under it. It, in light of the Company Act, exercises the right of an investor.

The main responsibilities of the Petroleum Group Corporation are: (1) It exercises the rights of management, administration and control over all the state-owned properties put under it by authority of the State Council, taking duties of inflation proof and increase in value; (2) It, in light of the needs at market and the national economy development program, sets up development strategies for itself, mid-term and long-term development programs and annual plans and arranges to accomplish; (3) It, in accordance of the national laws, acts and regulations, and policies concerned, unitarily manages and administrates all the production and marketing business such as petroleum and natural gas exploration and exploitation, refinery and chemicals, and natural gas chemicals, and organizes to carry out immense building programs; (4) It, authorized by the government, deals in financial business at home and abroad, and unitarily organizes to engage in internal and external petroleum joint-venture and cooperation as well as import and export; (5) It, in a maximum limit, increases its economic profit in form of optimized allocation of productive elements resources, property and capital by deepening enterprise reform, strengthening enterprise administration, stimulating scientific and technical progress and accelerating alteration of operation mechanisms and economic increase methods.

On the whole, the re-organized petroleum Group Corporation's operation range is obviously enlarged, its right to act on its own is fulfilled, and its economic actual strength is enhanced on a whole scale, which has opened up a far more spacious room for its development.

—The Actual Strength of the Re-organized Petroleum Group Corporation Is Enhanced. It owns total assets of 474.5 billion yuan and its sales income is as much as 220 billion yuan; it possesses 8 scientific research institutes directly under itself, 61 enterprise-owned scientific research institutes, 6 petroleum colleges and universities, having resulted in the formation of its own-styled, comparatively advanced productive art range in the fields of petroleum-natural-gas exploration and exploitation, and refinery and chemical engineering; and it has a staff of about 1.6 million people, of whom experts and technicians are 400 thousand.

—The Re-organized Petroleum Group Corporation Possesses an Obvious Superiority in Petroleum and Natural Gas Resources. The upstream industry still takes the place of a main force at home, in possession of explored petroleum reserves of 13.36 billion tons and natural gas reserves of 1240 billion cubic meters, taking 70.2% and 73% respectively in the whole country; Its annual output of crude oil is 107 million tons, and its natural gas 14.8 billion cubic meters, taking 67% and 66.3% respectively. Especially, it has a new districts with more potential resources in China, of which quite a few are located in the work site of the Petroleum Group Corporation. They serve as more abundant preparatory resources base.

—In the Re-Organized Petroleum Group Corporation A Integrated Production Pattern Between the Upstream and the Downstream Has Been Set UP. After some large-sized refinery and chemicals enterprises are newly added, the capacity of refining crude oil reaches 107 million tons annually, taking 45.6% of the whole output in China; the production of ethylene is 1.33 million tons, being 41% of the national output; the ability to produce synthetic resin is 1.2 million tons, 30.5% the whole output of China; 200 thousand tons of synthetic rubber can be produced within the 39.2% of the national entire production; 470

thousand tons of synthetic fiber is capable of being produced with a proportion of 57.3%; The productive capacity of fertilizer(carbamide)is 2.79 million tons, 40.9% of the whole.

—In the Re-Organized Petroleum Group Corporation A Operation Patter of the Integration of Production and Marketing, and the Integration of Internal Trade and External Trade Has Been Formed. A unitary marketing system has been set up within the compass of jurisdiction of the corporation and begins to expand and diverges beyond its compass, with four regional marketing companies distributed in the Northeast, the Northwest, the North of China and the Southwest; with 15 petroleum companies shattered in different provinces and cities; with more than thousand kilometers of pipe line to carry petroleum, 14.8 million cubic meters of tankers for storing oil and more than 5000 gas stations, and with 130 thousand people engaged in marketing crude oil and product oil. Granted by the state, the group corporation enjoys the right to conduct import and export, so its scope of business will be enlarged, extending into foreign countries by conducting international petroleum trade.

2. The Group Corporation's Development Strategies and Aims

The re-organization of both petroleum and petrochemical group corporation symbolizes a new development stage for the petroleum and petrochemical industry. In the face of both opportunity for development and challenge, the group corporation has a general aim in its development, that is, **to turn the corporation at high speed into a gigantic-sized petroleum and petrochemical enterprises group, equipped with advanced science and technology and operated in agreement with modern enterprise system; with both competitive power and trans-regional, inter-trading trans-ownershiped, transnational operation; by insisting taking market for a guide, by focusing on profits, by integrating entirely the upstream and the downstream, production and marketing and internal trade and external trade and by giving play to the integral superiority and co-operational efficiency so as to enhance its comprehensive economic strength.**

In doing so, efforts must be made to establish modern enterprise system in most of the petroleum and petrochemical enterprises under the group corporation so as to make up deficits and increase profits by 2000 years; and then through three or-five-year efforts, to make the main economic targets of the group corporation reach the level of the first ten enterprises out of the 50 petroleum enterprise super-powers in the world.

In order to realize the above aims of its general development, the group corporation has set up major strategies for its development, as follows:

(1) Make it sure to stabilize the development of crude oil. Petroleum exploration and exploitation is the group corporation's superiority. In order to stabilize a steady increase in the production of crude oil, the principle of Stabilizing the East and Developing the West should be carried out continually. Stabilizing the East means, in effect, depending on Daqing to maintain 84 million tons output of crude oil in the eastern region till 2000 years by further conducting stabilizing-oil-controlling-water project, by developing thrice-exploiting-oil techniques, and by broadening the revolving exploration and exploitation in the periphery of Daqing. In doing so, Daqing Oilfield, based on the 22-year high and steady production, is to maintain the output of 50 million tons annually till 2010 years. Developing the West means speeding up with a stress the exploration and exploitation in Zhunge'er Basin and Shangganningq Basins; meanwhile, continuing to prepare Talimu Basin and Chaidamu Basin for the strategic replacement of petroleum resources; besides, playing close and enough attention to the exploration and exploitation in other districts. So, in the late three years of the 9th five- year plan and the first ten years of the next century, 7 billion tons of newly-added explored petroleum reserves can be reached and a sound cycle of the input of resources and the output can be realized, with an output of crude oil as much as 110 million tons in 2000

years rising to 120 million tons in 2010 years.

(2)Raising profits in refinery and chemicals

At present, the group corporation consists of 34 refining and chemical enterprises, having a general refining capacity as much as 107.2 million tons and petrochemical products as many as over one thousand kinds, so they form an important part of the primary industry for the corporation. The development of refinery and chemicals in future should, based on the existing equipment and refining capacity, meet market demands, accelerate the structure adjustment by focusing on the optimization of regional body and realize resource-optimized allocation so as to increase economic profits on the whole. After three to five years of hard working, all the enterprises suffering from deficits should succeed in reducing deficits and increasing profits, with the production and operation targets of the main enterprises reaching the advanced level of similar enterprises at home.

Stress shall be laid on the technical renovation to get rid of "the bottleneck effect", lower the cost of production, adjust the structure of products and raise the quality of products. In the technical renovation, it is essential to tap the potentials of the existing crafts and equipment, to make good use of inventory of stock on hand, as well as to develop further refining ability and accelerate the upgrade and update of oil products. Thus, technical content can be enhanced in the products. Technology updating items should have raw material, market, competitiveness, profits and capital to avoid the investment beyond the time. Updating technology should be done by gathering the capital of one's own , changing ownership and listing securities, and through joint-venture, co-operation and other ways to raise the building money.

Resource superiority should be given free rein, more special products should be put out to meet the market, products of famous brand should be created, thus, the share of the market both at home and abroad can be enlarged.

(3)Accelerating Natural Gas Industry Development. The Petroleum Group Corporation has rich natural gas reserves. The natural gas industry is a new economic increasing point in its future development. Judging from the present exploration and exploitation, Chanyu, Shanganning, Xinjiang and Qinghai four large-sized natural gas areas have been formed, which exist in the work site of the group corporation. There, the forecast quantity of natural gas reserves is 23000 billion cubic meters while 1150 billion cubic meters has been explored. It is estimated that by 2010 years, 3100 billion cubic meters of natural gas reserves will have been accumulatively explored, quite enough to build up a productive annual capacity of 50 billion cubic meters.

Natural gas application in China has a bright future with a large market potential. The major problem at present is that the natural gas resource is far away from the consumption market, and that the downstream application project construction is severely lagging behind. Therefore, it is necessary to develop natural gas industry as a systematic project, to carry out a unitary plan and a unitary coordination for both the upstream and the downstream, and to connect the exploration and exploitation, and the pipeline building closely with the market and application, so that the resource superiority can be turned into the market and profit superiority. Now as we continue strengthen the natural gas exploration and exploitation, we should grasp the opportunity offered by the government's stimulating the application of natural gas, lay out a workable plan for the exploitation and application of natural gas and as soon as possible program the construction of natural gas pipeline, in particular, open up the natural gas market on the midstream and downstream of the Yangtze River, and round the Bohai Gulf . At the same time ,we should play close attention to the technology and new trends for the application of natural gas, so as to develop natural gas application items such as natural gas power generation, fertilizing, chemical engineering and natural gas vehicles.

When the problems of the natural gas pipe net establishment and the down stream exploitation project involving broad range ,and large investment are considered, we must try hard to get the support from the nation's policies and the social environment, to strengthen combination and cooperation with the internal and external companies, to look for the cooperation partners in various aspects, to collect funds for natural gas development, to open up the natural gas application market, and to stimulate the rapid development of the natural gas industry.

4.Strengthening the marketing. Our main aims are to increase market's occupying portion, to raise the benefit of selling cycle in order to speed up the oil circulation process of the transformation from planned economy to market economy, and to stabilize and enlarge the raw oil market. The market of finished oil products and other petrochemical products should be explored with great effort, and the natural gas market should be nurtured and developed so as to create the best marketing benefit.

In doing marketing work,, we must base it on the resources of the group corporation and the characters of the market, make a good balance of the resources, pay attention to the arrangement of products' flow direction and the flow rate and the link of the individual transportation chain as well as price making and market information work.. By applying the modern marketing measures, we will accomplish the combination of one-way selling and bilateral trade, of the internal selling and external selling, and of the extension of wholesales and retail sales, try to develop marketing channels and gradually consolidate and increase the market occupation ratio.

In dealing with marketing work, the main role of the group corporation marketing system should be developed. At the same time, it is necessary to pay attention to make a good combination with a various forms of the other enterprises and to develop the alliance with the petrochemical group as well as its subordinate oil and petrochemical enterprises, and develop the union with localities and other departments and enterprises too. All the forces of the society which will be useful to us must be made good use of to realize the aim of sharing benefits together and developing together in the cooperation.

5.Enlarge the cooperation with the outside world. The most important part of the entire strategic development of the group corporation is to insist on opening widely to the outside world and to enlarge the cooperation with the foreign countries. First, the internal oil resources market should be further opened to the outside world. Based on the principles of mutual benefit and superiority complementary, the group corporation can choose some attractive areas and some potential items and make a better overall planning, and continue to introduce the foreign funds and the techniques, and enlarge the cooperation between the internal oil and the external oil companies.

In this work, the cooperation system with the foreign countries should be further perfected, a better cooperation environment should be created, and the entire level of our troops should be raised in order to assure the cooperation with the foreign countries successfully.

Simultaneously, it is essential to develop the oil cooperation with foreign countries actively and carefully so as to apply the transnational management. Besides, the export of projects, labor services, techniques and goods, and material equipment of the group corporation should be enlarged in order to obtain larger related benefit.

6. Reinforce the capital management In accordance with the social market economy system being established gradually, and based on better management ,our group corporation will carry out the capital management step by step ,and bring along the re-circulation and re-

distribution of deposit capital, so as to realize the intact condition and increased value of the capital. In the capital management, exploration and exploitation, processing, storage and transportation, and marketing each can be considered as a sector of the capital increasing chain. The management target will be developed from a single product to all of essential product elements so as to increase the efficiency and benefit of the capital management.

The enterprise must not only actively try to enter the two internal and external financial markets, but at the same time, try to realize the accumulation and enlargement of the newly increased capital inside the enterprise.

Raising and circulating funds must be carried on through many channels and many ways. It is important to keep a reasonable capital structure and the assets and liabilities rate so that we can have a moderate control over the scale of bank loan, and decrease the financial cost level, and adjust the structure of assets and liabilities.

7. Deepening the reform and strengthening the management

At first, the management system inside the group corporation needs to be straighten out. The relationship between the group corporation and its subordinate enterprises is a mother and son relationship based mainly on capital combination. According to "the company laws" and the nation's related regulations, the group corporation is a parent company, having its authorities to get the profit of state-owned assets from its subordinate enterprises and to make important decisions and select the managers. Besides it also has the power to supervise and check its subordinate enterprises and undertake the limited responsibilities towards its subordinate enterprises according to the investment limitation. Each of the subordinate enterprise possesses legal ownership of property, and makes its own managerial decision. Besides, it has right to handle the enterprise's own affairs and to decide the capital construction, technical transformation and the other investment items in its power range and complete the production and management benefit target given by the group corporation and bears the responsibility for the inflation of government owned assets and adding proof savings value in the collective companies.

The enterprise management should take a good charge of assets management, production management, material management and marketing management, and at the same time particularly strengthen policy decision management and fundamental management, so the various work of the enterprise will be really based on a solid foundation.

8. Insist on scientific and technological progress Technique innovation is the key to realize the exchange of economic increasing pattern in a group corporation. In terms of the needs in the production and management and development of petroleum and petrol chemical engineering, we should enlarge the investment and put more efforts into science and technology to continue the attacking fight in science and technology with force, so some difficult crucial technique problems can be solved by group efforts. We should widely adopt the craft and technique which is advanced and suitable, raise the technique content in petroleum and petrochemical products, decrease the production cost, reinforce the market competitive force. We should reform the science and technological management system, speed up the process of science and technology industrialization, enlarge the transformation power of the science and technology achievements and develop all kinds of cooperation and union relationship actively with the internal and external companies to absorb the advanced scientific and technological achievements in its maximum limit. Besides, we should further complete the system of present information nets, reinforce the ability of obtaining and using information, to give full play to the supplementary decision-making function of information study, and raise our ability to adjust to market changes.

What I talked above is the tentative ideas of our group corporation in the future

development. In realizing these ideas, our group corporation will be built into a super international oil company which has both a strong competitive competence and a modern enterprise operating system based on science and technology.